2016 MAKING ISSUES COUNT

ELIMINATING THE INDIVIDUAL MANDATE?

A KEY COMPONENT OF THE AFFORDABLE CARE ACT (ACA) requires most Americans to obtain a minimum amount of health insurance coverage through employer-sponsored plans, the private insurance market, public insurance program such as Medicare or Medicaid, or pay a penalty. This requirement, along with the premium subsidies for low- and moderate-income individuals, limited open enrollment period, and other ACA provisions, is intended to help ensure the viability of the insurance market.

The ACA prohibits insurers from denying coverage or charging higher premiums to individuals with higher expected costs due to their health status. These prohibitions generally would result in an increase in average health insurance premiums, unless a broad cross-section of people participate in the private health insurance market—the young as well as the old, and the healthy as well as the sick. By requiring enrollment even among healthy people, the ACA's individual mandate addresses these adverse selection concerns, which is why the individual mandate is a fundamental aspect of the ACA.

The mandate was challenged before the U.S. Supreme Court, which decided in 2012 that the individual mandate passed by Congress was constitutional. Nevertheless, many efforts to modify or repeal the by Congress and proposals by presidential candidates would eliminate the mandate. Weakening or eliminating the mandate could result in fewer insured and higher premiums unless alternative provisions are implemented to create equally strong incentives for healthy individuals to obtain coverage.

Alternatives to the Mandate

Less frequent open enrollment periods

The ACA includes an annual open enrollment period during which individuals can sign up for coverage; people cannot enroll outside of this period except under certain conditions. Less-frequent open enrollment periods, such as an open enrollment period every two to five years instead of annually, would provide a greater incentive for people to purchase coverage sooner rather than later.

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Late enrollment penalties

A late enrollment penalty is often suggested in combination with less frequent open enrollment periods. If an individual does not enroll in coverage when first eligible, subsequent enrollment would require a higher cost. This could be done, for instance, through a premium surcharge or a reduction in premium subsidy. Late enrollment penalties could also come in the form of limiting coverage for pre-existing conditions, higher premiums for those conditions, or even denial of coverage altogether.

Allow greater premium variation

Under the ACA, premiums in the individual and small group health insurance markets are not allowed to vary by health status, and can reflect age variations up to a 3:1 ratio. Allowing greater variation in premium rates based on age would reduce costs for younger adults, likely increasing coverage. But premiums would rise for older adults.

Coverage opt-out with payment for uncompensated care

Without an individual mandate or other mechanisms in the ACA to encourage enrollment, health care providers would see a rise in uncompensated care. A proposed alternative mechanism would be to allow individuals to opt out of coverage but require that they pay a share of uncompensated care costs through an annual assessment.

Although such voluntary incentives would provide incentives for healthy individuals to obtain coverage when first eligible, they would likely not be as effective as a strong individual mandate. In addition, special consideration would be needed to ensure access to coverage for vulnerable populations, for instance those with low incomes or pre-existing health conditions.

High-risk pools

If the ACA provisions prohibiting insurers from denying coverage or charging higher premiums based on health status were relaxed, average premiums would be lower but high-risk individuals would have difficulty obtaining coverage. High-risk pools have been used to facilitate coverage for high-risk individuals, but these have generally been small, coverage has been limited and expensive, and they have typically operated at a loss. In addition, removing high-risk individuals from the insured risk pools reduces costs in the private market only temporarily. Over time, even lower-risk individuals in the individual market can incur high health costs, which would put upward pressure on premiums.

Additional Resources From the Academy

Academy Testimony to Congress on Individual Mandate READ MORE...

Drivers of 2016 Health Insurance Premium Changes READ MORE...